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Tips for the New Economic Policy Team

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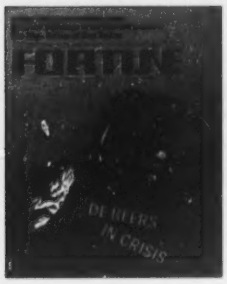
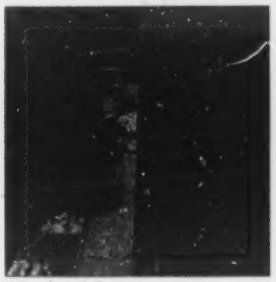
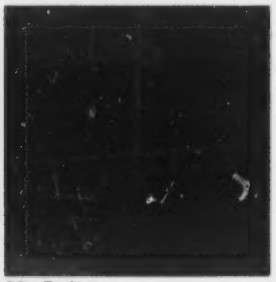


The diamond in the cover photograph by Andrew Unangst weighs 25.36 carats, and when Harry Winston rejoins it with its platinum setting and the 22 lesser diamonds it will be worth about $250,000. How De Beers's diamond business fell apart is chronicled in the article on page 42.

38 Economic team



62 Accidents



88 Suites

Departments

4 THE EDITOR'S DESK

7 IN THE NEWS
BBDO International looks strongest on surprisingly healthy Madison Avenue, **Anheuser-Busch** brews a deal with breadmaker **Campbell Taggart**, **Gulf** jilts **Cities Service**, **Lilly** withdraws its anti-arthritis drug, **Mary Kay Cosmetics** rides high—and more

19 LETTERS TO FORTUNE
On the bitter sweetener battle, the Equal Rights Amendment, how Europeans think, Penn Square Bank, and other matters

29 FORTUNE FORECAST
Recession's mighty squeeze on prices
Local governments scrape to make ends meet

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4—Dan Kramer. 29,30—Chartmakers Inc. 39—Photographs of faces: Andrew Sacks, Terry Ashe, Dirck Halstead, Diana Walker, David Hume Kennerly, Dirck Halstead, David Hume Kennerly, Georgiana Silk. 48—Chart by William Reduto, photograph by John Madere. 53—Alon Reininger-Contact. 64—Daniel Pelavin. 102—William Reduto. 104—Walter Hortens. 107—Tags by Peter Bradford. 110—Peter Bradford. 116—Tag by Peter Bradford. 120—Patricia Byrne.

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100 Armstrong

106 Syms

33 KEEPING UP
Russell Long's lament, in search of sex bias, avocado oppression, and other matters
by Daniel Seligman

119 PERSONAL INVESTING
The low-technology play in computers
by Mary Greenebaum

123 ON YOUR OWN TIME
The thrills of board sailing
by Marilyn Wellemeyer

131 BOOKS AND IDEAS
Inside MITI

GOVERNMENT
38 Tips for the New Economic Policy Team *by Herbert Stein*
As they reshape Reaganomics, the President's advisers should also sort out who's supposed to do what.

CARTELS
42 De Beers and the Diamond Debacle *by Peter W. Bernstein*
Its revenues halved and its cash drained, the monarch of the world's diamond market is struggling to put its kingdom back together again.

INVESTMENT BANKING
55 The High Rollers of First Boston *by Lee Smith*
Under quiet, tight-fisted George Shinn, the conservative old firm has become a hugely successful risk taker.

MANAGEMENT
62 When Accidents Don't Happen *by Jeremy Main*
A better-than-average safety record can be worth millions in profits.

EDUCATION
70 Industrial Espionage at the Harvard B-School *by Thomas Moore*
When one team playing Harvard's famous business game cracked another's computer code, it re-ignited an emotional debate over ethics.

MARKETING
78 The Computer Comes to Main Street *by Peter Nulty*
The industry envisions a huge market for small-business computers—but it will have to do better at helping purchasers use the things.

PICTURE PORTFOLIO
88 Rooms at the Top
From Bauhaus to treehouse: fancy suites at seven big-city hotels.

COMPANIES
100 The Niche Pickers at Armstrong Rubber *by Gurney Breckenfeld*
The No. 6 U.S. tiremaker fattens profits in a deflated industry by innovating in minimarkets.

RETAILING
106 The Man Who Makes Millions on Mistakes *by Walter McQuade*
One of the fastest-growing off-price merchants, Sy Syms converts excess inventories of brand-name apparel into bargains for the consumer.

CARTELS

De Beers and the

by PETER W. BERNSTEIN

The startling thing about De Beers is that it has fallen so far so fast. Two years ago the celebrated South African company bestrode the world of diamonds: it controlled production, dictated prices, and laid down the law to the trade—all for handsome rewards. In 1980 diamond sales brought De Beers about $2.8 billion, fully $1.1 billion of which was profit. Last year sales dropped to half that level and profits were off by 34%. Flush with over $1 billion in cash two years ago, De Beers by now has spent most of it to support diamond prices, and the company sits on top of a veritable mountain of diamonds: its vaults contain more than $1.4 billion in ston
On FORTUNE's 1982 list of the 500 largest industrial companies outside the U.S., De Beers Consolidated Mines fell from No. 169 to No. 339, the largest drop of any listed corporation.

Scattered all over southern Africa are even fresher signs of De Beers's troubles. A diamond mine in the mountains of Lesotho, a tiny independent enclave surrounded by South Africa, has been shut down. So has another mine near Kimberley, the remote, historic little town where diamonds were discovered over a century ago. At other mines in South Africa and in neighboring Namibia, where alluvial deposits along the shores of the South Atlantic have yielded some magnificent gems, diamond production has been cut back.

De Beers has not reduced its production so severely since the company closed all its

A sentry stands guard over what may well prove to be the most valuable diamond mine in the world: the Jwaneng mine in Botswana. De Beers shares ownership with the Botswana government.

Photographs by David Goldblatt

The monarch of the world's diamond market, its revenues halved, is struggling to put its kingdom back together again.

Diamond Debacle

Harry F. Oppenheimer, 74, took over the chairmanship of De Beers and its South African sister company, Anglo American, after his father, who founded Anglo American, died 25 years ago. The Oppenheimer family owns 18.7 million shares of Anglo valued at around $180 million.

mines for four horrendous years during the 1930s. Musing about the present in his tasteful office in Johannesburg, Harry Oppenheimer, 74, the soft-spoken scion of the family that built its fortune in gold and diamonds, is continually reminded of those years: "These are the worst times that I can remember since the Depression." No wonder speculation has grown that diamonds have lost their place as both a luxury and an eternally wise investment, and that De Beers, after 50 years of domination, has lost its grip.

But dire predictions may be premature. As far as De Beers has fallen, it remains a strong company. Although drained of cash, it has assets of about $5 billion, over half outside the diamond business. The company's profit margin stood last year at an extremely attractive 50% of sales. De Beers's debt amounts only to $430 million, a small fraction of its borrowing capacity. Oppenheimer recently predicted that De Beers would add about $200 million worth of diamonds to its stockpile this year—less than half last year's $530-million jump and an indication that the dizzy decline is being checked.

Countries under company rule

Far from verging on collapse, the diamond cartel over which De Beers presides remains a tightly cohesive group. The important owners and producers of diamonds are countries, but De Beers has been strikingly successful in bringing them under its corporate rule. As new sources of diamonds have been discovered, the Central Selling Organization, a collection of companies controlled by De Beers, has brought each inexorably into its fold. The CSO today probably markets about 80% of the world's "gem diamonds"—those used in jewelry. And the retail market for diamonds remains strong.

Although to some extent the victim of forces beyond its control, De Beers made bad mistakes in the years before its fall. As befits such a company, they were enormous and costly. The process of adjustment and correction will not be easy; any real turnaround will have to wait until 1984 at the earliest. Even Oppenheimer, who is resolved to remain as chairman until the recovery is in hand, does not see better times just around the corner. "I would not buy De Beers shares now," says the owner of 222,250 of the shares—traded over the counter in the U.S. now for about $4 each, compared with $12 two years ago.

Research associate: Edward C. Baig

The big trouble for De Beers began in the late 1970s, when inflation caused a worldwide rush from paper money to tangible assets. The price of gold then jumped from $132 to $875 an ounce; silver shot up from $4 to $50 an ounce. In 1979 the price of a one-carat D-flawless diamond, the benchmark of quality in the industry, leaped from $23,000 to $62,000 (see chart, page 48).

The speculative orgy began in Israel, a leading center for the cutting of diamonds. Around Tel Aviv, diamond cutters buy "rough"—uncut stones—and turn them into glittering gem diamonds. These stones are then sold to manufacturers of jewelry. To encourage the diamond industry, a major earner of foreign currency, the Israeli government subsidized interest rates: in 1977, *diamantaires* could borrow money from banks at 6%, about 25 percentage points below the prevailing rate. Armed with cheap money, scared of inflation, worried about devaluation of Israel's currency, the dealers rushed to buy and hoard diamonds.

The speculation quickly spread to other cutting centers. In Israel the demand was mainly for "melees"—polished diamonds of about a quarter carat in weight; in Antwerp and New York dealers scrambled for larger stones. As the fever spread, dealers were reselling diamonds bought by the box from the CSO for much more than their original price, hardly pausing to raise the lid. And they raced to sell to people who wanted to stash away the hardest of all possible assets in their vaults. At their peak, investment sales accounted for almost a fifth of the gem diamond market.

The place where most diamond dealers have to go to buy, De Beers was the center of this speculative storm. Ten times a year De Beers invites about 300 select diamond dealers to its "sights"—sales where *diamantaires* from all over the world assemble. The sales are held at 17 Charterhouse Street, in London's diamond district. Diamond-shaped glass panels on the heavy wooden door give the only clue to what lies inside. There each year the CSO sells 20 million to 30 million carats of diamonds, sorted into thousands of categories and placed in plain brown shoeboxes.

A seller's market

Before each sight, dealers place orders for certain types and quantities of stones. Except on "specials"—stones that weigh 10.8 carats or more—prices are fixed, but dealers can haggle about quality. In the end, though, such is De Beers's power that dealers must either buy the whole box of stones or nothing. Dealers must pay cash; those who are too troublesome may not

have a chance to buy at all next year.

The speculative boom and the hoarding threatened De Beers's control of the market. To flush diamonds out of dealers' inventories, De Beers at first flooded the market with uncut stones. The boom persisted. The stockpile of diamonds in cutting centers began to rival that held by the CSO. Each new stone the CSO sold diminished De Beers's leverage over the trade.

Nor could De Beers get control by simply refusing to sell stones at all. Had it tried, the cartel so carefully put together would have burst apart. Even as it was, other producers were angry and restive: on the open market diamonds were fetching prices much higher than De Beers was paying. One vocal complainer was Botswana, dependent on diamonds for more than half its export earnings. And according to one De Beers executive, "the Russians were really upset." After South Africa, the Soviet Union is the world's largest producer of gem diamonds. Had the Russians left the cartel, they would have dealt De Beers a crippling blow.

Never having faced such a crisis, De Beers was nearly torn apart by it. On the one hand it warned of the dangers of the speculative boom; on the other it milked the boom for all it was worth. In 1978 Oppenheimer condemned the speculation as "unhealthy and unsound." But in the previous two years De Beers had profited greatly by raising its prices by 40%—enough to encourage any dealer to hurry to buy before the next price hike.

Searching for a way to appease producers and puncture the speculation, De Beers introduced a surcharge on diamonds sold by the CSO. The beauty of the surcharge was that it could be quickly applied to allow producers to profit fully from the boom. But it also checked speculation, since dealers knew the surcharge could be just as quickly removed, in effect bringing prices back down. The first surcharge of 40% was applied at the March 1978 sight. By July the market had cooled sufficiently so that De Beers could reduce the surcharge to 10%, lowering prices for a brief period. "The surcharge was a hidden way of doing something we said we would never do," explains Tim Capon, a senior De Beers executive in London. "It allowed us to reduce the price of rough without ever having to declare a price reduction."

Revoking a good move

But De Beers, nervous about making so basic a change in its old formula for success, distrusted its own innovation. The surcharge did have deficiencies, but none need have been fatal. Julian Ogilvie Thompson, second in command to Oppenheimer and his heir apparent, remarks that the surcharge "is a blunt instrument. The market was placing a different premium on different kinds of diamonds, and you needed a price increase that was not uniform for all goods." But the best opinion today is that the surcharge had overriding advantages. Concludes Anthony Oppenheimer, a cousin of Harry's who helps preside over the CSO: "In retrospect, we should have kept the surcharge on longer." But De Beers canceled the practice a bare five months after it began.

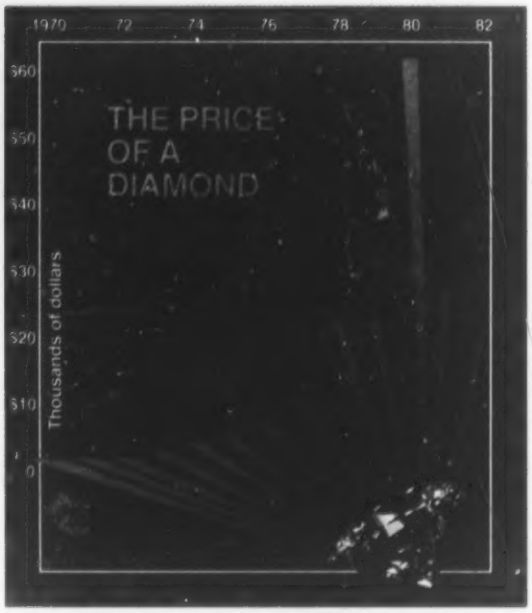
Surrendering that new policy, De Beers mistakenly reverted to the old one. The company increased prices by 30% in August 1978. Since it had announced when it imposed the surcharge that basic selling prices would be increased only when justified by demand, the new increase was taken as an endorsement by the highest authority of all—De Beers itself—that the value of diamonds was climbing. A true believer, the trade continued to bid up prices, especially for larger stones. Having thus induced an increase, De Beers responded to it with another, this time by 13% on larger stones. Five months later came still another increase of 12%.

These prices, one climbing atop the other, constituted a shocking misjudgment of the market. In 1980 diamond prices were 140% above what they had been in 1975. But unit sales—the total number of carats sold per year—were still at 1975 levels. The last price rise came just as demand actually turned down, particularly for larger stones, where the greatest increases had occurred. De Beers was supporting its own price structure by buying from dealers as well as producers, but it had no place to sell what it was buying. At those levels even buyers dependent on the CSO for their livelihood had to turn away. De Beers's inventory went up from around $500 million to around $940 million during 1980.

continued

Gavin Relly (seated), 56, will become chairman of Anglo American when Harry Oppenheimer steps down at year-end. Harry's only son, Nicholas Oppenheimer (left), 37, will become deputy chairman. The other deputy chairman and the man likely to succeed Harry at De Beers eventually is Julian Ogilvie Thompson, 48.

In the sorting house at Jwaneng, workers slip their hands into gloves fixed in the sides of bins. Then they separate diamonds from concentrate. The diamonds are flown to London for sale to dealers.



The Price Is Not Forever

Fewer than 40 diamonds were certified as one-carat D-flawless in the U.S. last year. But the price of those rare stones reflects the movement of prices in the industry. Although 1982 looks like a bust year, the price of $18,000 is high by historic standards.

Then last year the market collapsed. Eager acquirers so recently, merchants disgorged a gleaming river of stones. Panicked by falling prices, burdened by high interest charges, they had to liquidate what they had collected. The CSO's sales of $1.4 billion were the lowest in six years.

While still laying out money to mop up the flood, De Beers is also reducing production. In the last decade De Beers's own production has risen from about ten million to over 15 million carats a year. With the spectacular new mine in Botswana, plans called for production to jump to 19 million carats annually. But since the diamond glut, De Beers, which produces half the world's gem diamonds, has closed down or cut production at five of its 17 mines. It will produce fewer big, better-quality stones and more of the smaller ones that remain in demand.

Old cartels never die

De Beers is also using all the leverage it has over mines it does not own. According to its contracts, if sales decline to a certain point De Beers is required to buy only a certain percentage of each producer's output. One result: Botswana now has a stockpile of unsold diamonds valued at about $100 million.

Through good times and bad, De Beers has done a remarkable job of holding the producing cartel together. Producers that used to grouse about not being paid enough are now grateful for De Beers's purchases. Oppenheimer says the company controls "a greater proportion of the world's diamond production than it did ten years ago." It has contracts with countries that seem unlikely clients for a huge corporation owned and run by whites in a racist nation. In the grip of a civil war, Angola virtually stopped producing diamonds after winning independence from Portugal in 1975. Untroubled that Angola is avowedly Marxist, De Beers soon persuaded its new leaders of the advantages of an exclusive club. By 1979 the CSO was once again selling Angola's output. The prospect that Namibia, Angola's southern neighbor, will leave the CSO as soon as it gets its independence seems less likely now that Angola has come securely into the fold.

Of all the independent producers, Botswana is the most important. During the next decade and beyond, that arid, thinly populated country may produce more big diamonds than either South Africa or the Soviet Union. According to Oppenheimer, Jwaneng, Botswana's big mine, "is probably the most important diamond find since the discoveries at Kimberley." De Beers has acquired half ownership of Jwaneng and the country's two other diamond mines; its partner is the Botswana government, which gets 70% of the profits. The beneficiary of De Beers's producing and marketing skills, Botswana, one of the most stable countries in black Africa, is unlikely to break away from De Beers. De Beers's lease on Jwaneng does not run out for another 21 years.

In Zaire De Beers has shown not clever diplomacy but raw power. When Zaire broke out of the cartel last year it accused De Beers of cheating to increase its commissions. In 1981 Zaire produced around $45 million in diamonds, mostly of the industrial type. For De Beers the amount was small but the principle large: the confidence of producers is essential glue for the cartel. So De Beers was quick to strike. As a member of the CSO, Zaire was selling bort—low-quality diamonds crushed into powder—for $3 a carat. Today it is lucky to get $1.80. Ever since Zaire broke away, De Beers has been dumping its own bort on the market. Asks one De Beers executive: "Anyone want to follow Zaire?"

A recently discovered mine near Lake Argyle in western Australia is remarkable because it will produce 20 million to 25

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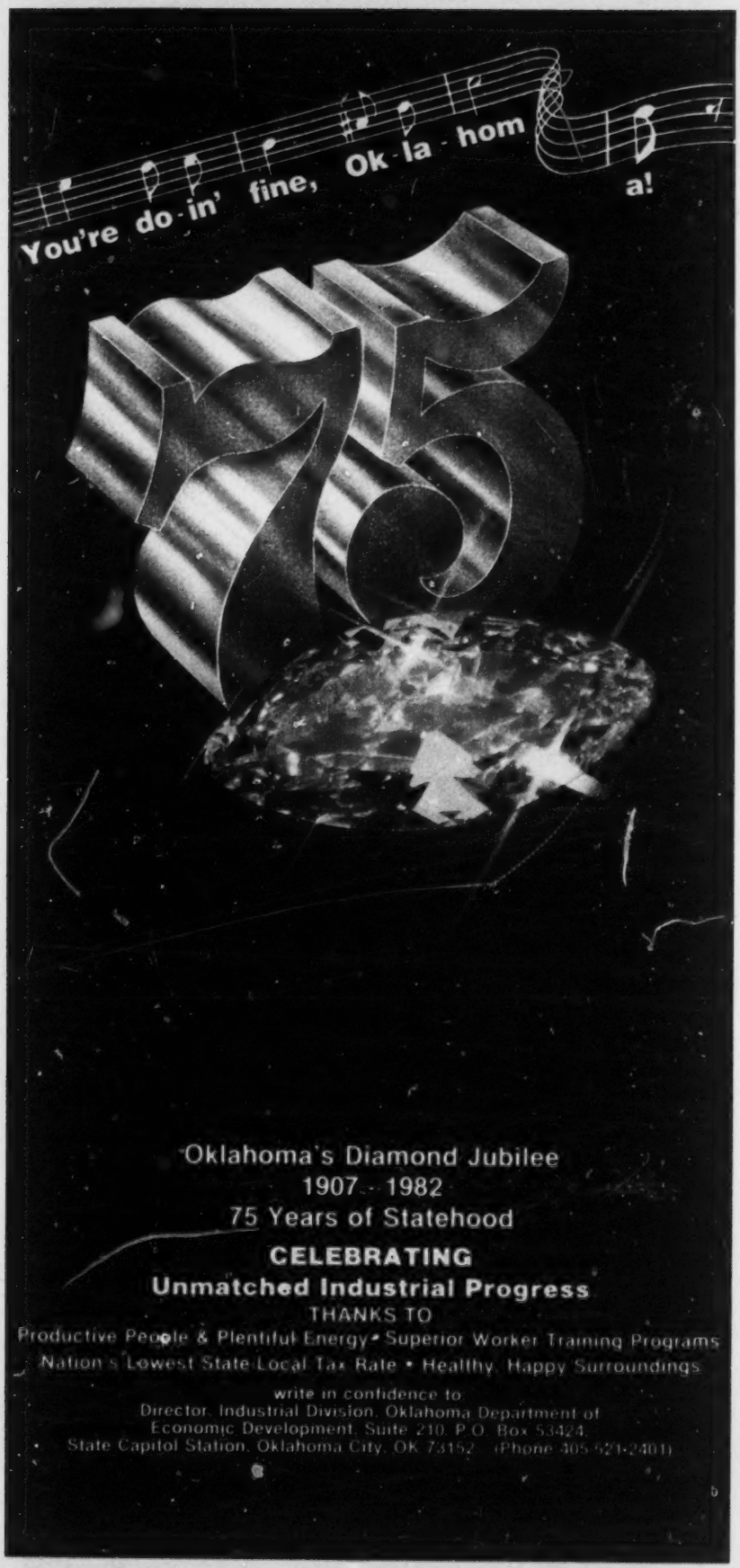
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Director, Industrial Division, Oklahoma Department of
Economic Development, Suite 210, P.O. Box 53424
State Capitol Station, Oklahoma City, OK 73152 (Phone 405-521-2401)

De Beers is now more solicitous of captive clients.

million carats a year by 1986. But almost all will go for industrial use. Harry Oppenheimer estimates that Argyle's production will amount to about $175 million annually. Although he says the mine is "not a major thing," it was important enough for him to make a unique concession in a preliminary agreement signed with the Australian owners earlier this year. De Beers will market all Argyle's gem diamonds, but only three-quarters of its industrial diamonds, leaving Australia to sell the rest. Never before has De Beers allowed producers to sell part of their output elsewhere than through the CSO.

De Beers has been changing its ways with customers as well as suppliers. At the sights now, De Beers is far more solicitous of its captive clients. Monty Charles, the executive in charge, is not a man who sees things from the perspective of customers, but he has been telling them recently that the CSO would understand if they bought fewer diamonds. In the past a dealer was likely to be purged if he missed a sight. To help customers get the diamonds they want, the CSO now sells 5,000 varieties instead of the 2,000 offered before.

A need to upgrade

With production under control and the CSO's powers reestablished, De Beers now faces the need to expand the most profitable segment of the $18.5-billion retail market—the sale of larger stones.

Despite the slump in the sale of uncut stones, more pieces of jewelry containing more total carats and costing more money were sold last year than ever before. Still growing, the market in the U.S. continues to be the world's best. Today the biggest part of the market is sales of diamonds for married women. Eight years ago only 4% of married women in the U.S. acquired a new piece of diamond jewelry; last year one in ten did. A man of stout heart, Jeremy Pudney, De Beers's marketing manager, speaks optimistically of a new male market in America, insisting that "millions of women are trying to decide what to buy a man instead of a tie or shirt."

The most sparkling new market for dia-

continued

monds in recent years has been Japan. Fifteen years ago the U.S. made up almost half of the diamond jewelry market; today it represents only a third. Japan now accounts for almost a fifth of the world market. In 1967 6% of Japanese brides-to-be got diamond engagement rings. Today two out of three get them.

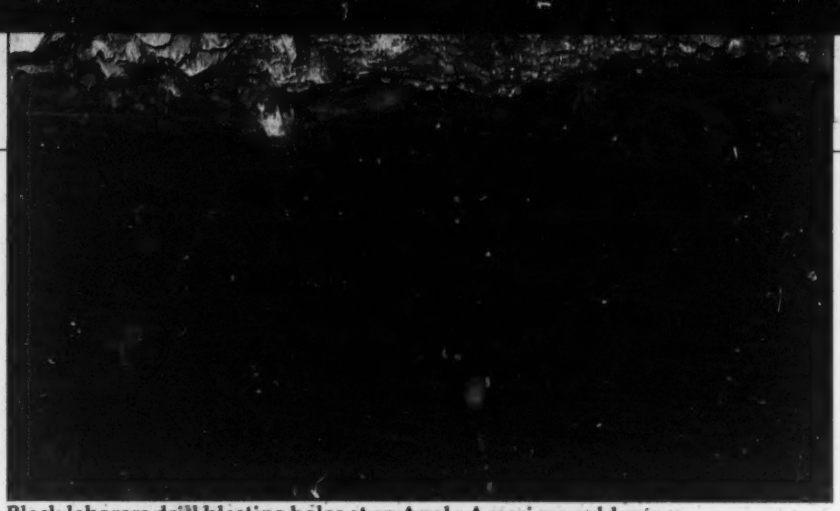
While De Beers has broadened the market, the stones that sell are getting smaller and smaller. Last year the average diamond in an engagement ring weighed .29 carats; five years ago the stone in the center of that ring was 25% bigger. Nor is diamond jewelry a big-ticket item any longer: about one-third of all the pieces of diamond jewelry sold in the U.S. last year cost less than $300. The average engagement ring cost about $700.

Since most of CSO's revenues, and most of De Beers's profits, come from the sale of larger stones, the company faces the hard and prolonged job of reversing this downsizing. For that purpose De Beers, which has had notably successful advertising campaigns in the past—"a diamond is forever" are household words—is launching a multimillion-dollar campaign pushing larger stones, predictably to be worn by more gorgeous women. "A diamond of a carat or more. There's only one in a million," is De Beers's new pitch. One recent ad shows a stunning model wearing nothing but a solitaire diamond necklace. "She can't flaunt a fur on the Côte d'Azur," reads the tagline.

Besides trying to induce trading up, De Beers is thinking about stimulating the sale of diamonds as investments once more—no easy task given the recent collapse of prices. But the job may not be impossible if De Beers should succeed in putting together a mechanism for resale of gems by individuals. And De Beers, which has weathered bad times before, does not think that the present recession is forever. With the upturn, Harry Oppenheimer says, the sale of big stones will resume. He associates the sale of big diamonds with that most durable of human frailties, vanity—which continues in plentiful supply.

If restoring the market takes time, De Beers has the strength to wait. Of its about $3 billion in assets outside the diamond business, the largest is a 38% holding in Anglo American Corp. That giant enterprise controlled by the Oppenheimer family produces gold, steel, and coal and reaches into insurance, real estate, and a wide variety of other enterprises. Through Minorco, a holding company in which De Beers and Anglo American have large stakes, De Beers also owns a big chunk of Phibro-Salomon, Englehard Corp., Consolidated Gold Fields, and Canada's Hudson Bay Mining & Smelting. De Beers can and will borrow against those resources to finance the heaps of diamonds in inventory until the revival comes—Oppenheimer, who didn't get where he is by being pessimistic, is that confident. He even sees the day when De Beers's inventory, bought for over $1.4 billion and stored at enormous cost, could be sold off at a big profit.

If that comes to pass, Harry Oppenheimer may win a prize as crisis manager of the year—maybe a blue-white diamond. F



Black laborers drill blasting holes at an Anglo American gold mine.

Toil at the Lowest Levels

Heavily dependent on black labor, mining companies in South Africa have been among the slowest to recognize the rights of black Africans. The storm that blew across the nation in the mid-1970s, punctuated by riots and death, calmed somewhat when blacks won the right to form trade unions and engage in collective bargaining. But in mining, improvements have been meager. Black rage is mounting: in July ten blacks were killed and hundreds arrested in riots at mines west of Johannesburg.

The principal black grievance is disqualification from the better-paying jobs in mining. By law only "scheduled persons"—meaning non-blacks—can get such jobs. Blacks are not allowed to polish a stone bigger than 1.19 carats—a typical absurdity of apartheid. The average black gold miner earns $238 a month, while whites average over $1,000. Over 500,000 blacks work in South Africa's mines. Only a tiny fraction are unionized.

Once thought of as liberal employers, De Beers and Anglo American have been losing that reputation. In Parliament as long ago as the 1950s, Harry Oppenheimer was an outspoken foe of apartheid. And for many years he has fervently argued for the right of blacks to unionize.

But as an executive, Oppenheimer does not always practice what he preached. A trade union organizer insists that De Beers resisted furiously before consenting to its first and only union, a small one at three mines near Kimberley. De Beers and Anglo pay black miners slightly more than other mining companies, but still pay them far less than white wages. The company's industrial relations consultant admits, "We find it very hard to live up to our rhetoric."

In their defense, Anglo American and De Beers say that they are working within the Chamber of Mines, the group that sets wage and employment policies, to help blacks. Their familiar argument is that they can do more for all black miners by remaining in the Chamber than they could by breaking out of it.

But Oppenheimer's corporate empire occupies a position of primacy. With coal, gold, and diamond mines that employ 185,000 black workers, Anglo and De Beers have great power. "Black wages have got to get up to the scale of white wages," Oppenheimer said recently. Although Anglo's mines were not involved in the trouble in July, those riots signal that the time to deliver on that promise is at hand.

Debt-Equity Swaps: The Hot New Risk

One of the hottest—and perhaps riskiest—new products on Wall Street is the debt-equity swap, a transaction invented by Salomon Brothers last year and eagerly imitated by most other investment bankers. Though the payoff for the banker can be huge, a lot can go wrong—as First Boston demonstrated when it got stuck with all that Cities Service stock.

The swap is a creative response to today's big corporate problem: heavy debt and sagging stock and bond prices. If corporations retire their bonds by paying cash—an appealing idea at current depressed bond price levels—they also incur a tax liability. If a company bought one of its bonds with a par value of $1,000 for, say, $400, it would owe taxes on the difference. The debt-equity swap is tax-free, or at least the IRS hasn't stopped it yet.

An investment banker buys, primarily from institutions, millions of dollars worth of a company's debt and sells that debt back to the company. Instead of taking payment in cash it takes stock from the company and sells it back to the same sort of institutions that used to hold the company's debt. The investment bank gets about $2.50 from the company for each $1,000 bond it turns in. But where the bank seeks its big profit—and takes its big risk—is in the spread between the price at which it receives the stock and the price it hopes to get when it resells the stock.

First Boston ran into trouble by overpricing, at $37 a share, the 2.1 million shares of Cities Service stock that it began offering May 21. To keep the price up it had to keep buying back shares while it was selling them. First Boston still had 570,000 shares when its luck turned and Gulf made a $63-a-share tender offer. Then Gulf withdrew its offer. First Boston's luck had changed again.

From nowhere First Boston skyrocketed to the front rank in M&A last year, playing a role in deals that totaled $30 billion. The department's style is offbeat. In most sections of the company executives favor gray suits and speak an English that is understood throughout Darien, Connecticut. In the M&A section the executives are a shade hip, sometimes saluting one another, "Hey, Babe." The section's "creative director," Bill Lambert, 35, reads research reports and dreams up mergers. Then he tries to convince the participants.

Like the guy who asks every pretty girl in the hall to dance, Lambert gets turned down a lot. He put in a call to the vice chairman of a major brewery suggesting that it buy a company that makes cellophane-wrapped crackers sold in vending machines. He was crisply informed that the brewer already had a banker. But from time to time the girl says yes. Warner-Lambert followed up on his suggestion that it buy Entenmann's, an East Coast bakery. Warner-Lambert paid $240 million for Entenmann's, and First Boston collected a fee of $1 million.

Perella, 40, and Bruce Wasserstein, 34, run the department and personally manage the firm's intermediary role in the big takeovers—for which each was paid more than $1 million last year. Wasserstein is a whiz kid, a brilliant architect of complex deals, although a little egotistical. Perella is the supersalesman, voluble and emotive. To demonstrate the concept of operating in the dark, he stumbles around his office with his eyes closed.

To a degree their success has been a matter of luck. Du Pont might have called upon Morgan Stanley, with whom it had a long-standing relationship, to represent it in the Conoco takeover, but Morgan Stanley had already been signed up by Conoco. Once they had the job, however, Perella and Wasserstein handled it ingeniously. They so structured Du Pont's tender offer that the chemical company would not get stuck with an awkward minority ownership if it failed to get all of Conoco. Success in M&A has brought some other work First Boston's way. First Boston is the primary co-manager, with Morgan Stanley in a lesser role, of a syndicate that is selling $250 million of Du Pont notes.

A happy marriage so far

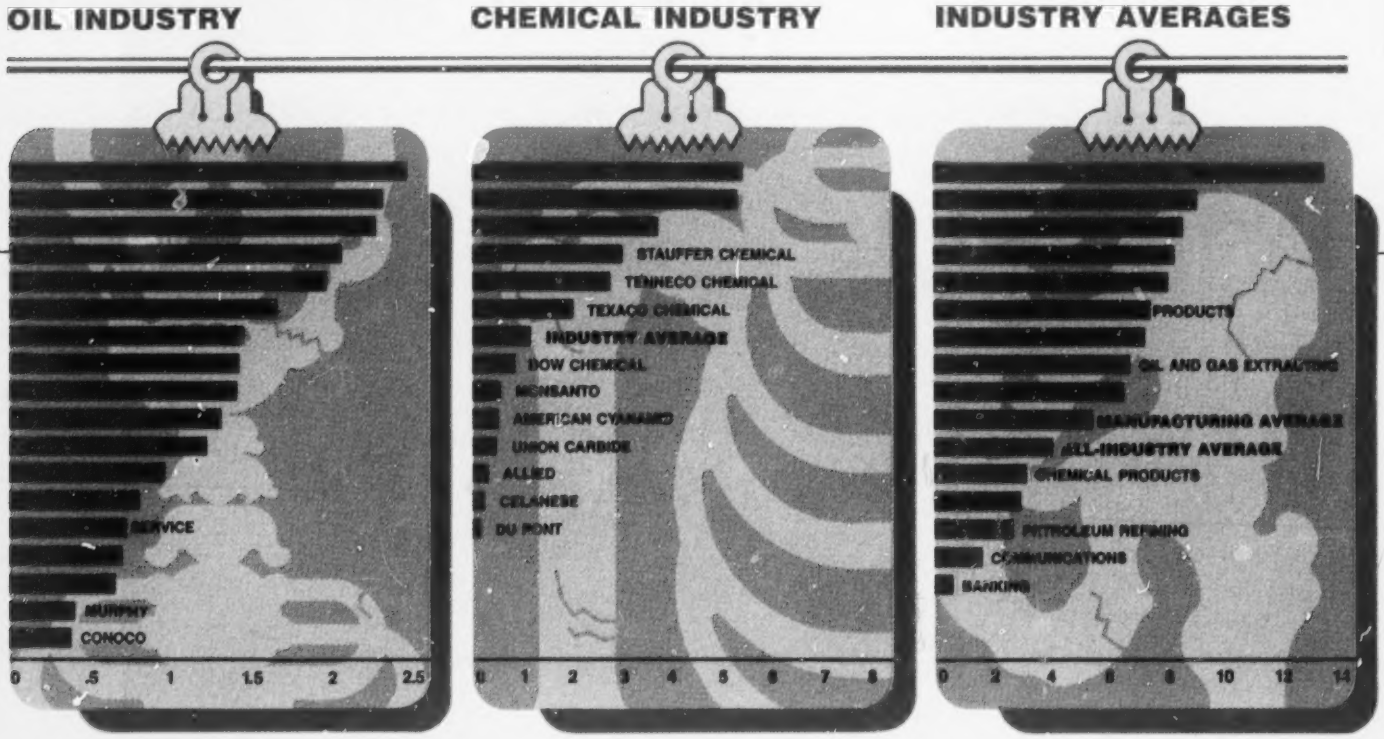
Shinn's single most important move for First Boston was also made in 1978, a decision to buy into a venture with Credit Suisse, one of the three largest banks in Switzerland. It set First Boston back $24 million. Credit Suisse had been wed to White Weld in a European partnership, but that broke up when Merrill Lynch took over White Weld. The Swiss were eager for another American partner. And Shinn was eager to replace Zombanakis's operation.

So far the marriage has been happy and fruitful. Credit Suisse owns a little less than half the venture, called Financière Credit Suisse-First Boston, and First Boston owns 34%. In an intertwining relationship, Financière owns a 38% stake in First Boston, making it the largest shareholder by far. (First Boston's 66 managing directors own 11%, or would if they converted all their options into stock.) The merger helps First Boston sell its U.S. clients' stocks and bonds in Europe and assist clients in buying European companies. Credit Suisse gets a corresponding advantage in access to U.S. markets.

First Boston still has some troubling weaknesses. For one, since it doesn't have a retail network like Merrill Lynch or E.F. Hutton, it is still entirely dependent for customers on some 5,000 or so institutions. From time to time First Boston has considered buying a retail network but has always rejected the idea. And Shinn, having spent a lifetime in a retailing firm, says he has no interest in buying one now. "I don't want to make this place a one-stop financial services company like Merrill Lynch," he says. "The only way to run a place like that is to be militaristic."

In addition First Boston, experienced bond trader, has neglected stock trading. Although it has been expanding the equities department, it still has a research staff of only 29 and a sales staff of 68. With the market so flat, that's not a big problem. But if the market picks up, First Boston would be hard-pressed to keep pace.

Along with other investment bankers, First Boston will have to operate in an ever more competitive marketplace. Shelf registration, for example, the new SEC rule that allows corporations to register large blocks of new securities which can then be sold when the market is favorable, is putting a lot more pressure on the bankers to cut their prices and increase their risks. Under George Shinn, First Boston has proved it's willing to do both. ■



Scoring Corporate Safety

Compared with the rest of industry, oil and chemical companies generally have good safety records. But the rate of disabling accidents at Ferro, a Cleveland manufacturer of frit, a glazing and coating material, is 45 times greater than that of the chemical company with the best record, Du Pont—which coincidentally owns Conoco, the safest oil company. The industry averages in the right-hand table are from the Bureau of Labor Statistics; the oil and chemical ratings are from the American Petroleum Institute and the Chemical Manufacturers Association (CMA). The figures include work-related illnesses as well as injuries. The CMA and BLS chemical industry averages differ because they are based on different samples. The CMA figures for Tenneco, Texaco, and Richardson-Vicks cover only their chemical divisions.

pational Safety and Health Administration was established in 1971. The rate for all private industry moved up fairly steadily from 3.2 in 1972 to 4.2 in 1979. In 1980 the rate dropped to 3.9. The 1981 figure won't be known until late this fall.

There is no widely accepted explanation for the increase. It could be attributed to the millions of inexperienced or young workers who came into the labor market in the 1970s, because accident rates among them are much higher than among experienced workers. That explanation would also account for the drop in 1980, when fewer new workers were hired because of the recession.

Another possible explanation is that accidents did not increase, but more of them got reported after OSHA's establishment. A less charitable explanation of the increase is that the growing generosity of workers' compensation payments has encouraged workers to submit more claims. Most states set payments at two-thirds of the injured worker's wage up to a maximum, which ranges from $112 a week in Mississippi to $942 a week in Alaska. The income is tax free.

The bulk of workers' compensation claims until now have concerned accidents, but companies face large and growing liabilities because of the health effects of substances, such as asbestos, that were used years before it was known that they might be damaging. To old enemies are being added some newly recognized ones, such as polyvinyl chloride.

Liberal interpretations

The generous payments and liberal interpretations of what a worker can blame on his employer are raising workers' compensation costs. A teacher can attribute his ulcer to the strain of dealing with unruly students. A salesman can blame his alcoholism on the employer who encourages him to entertain customers. "Employers are being held responsible for the health habits of their employees," says Robert Paris, a workers' compensation consultant to Aetna Life & Casualty.

California, Illinois, Michigan, Minnesota, Rhode Island, Wisconsin, and the District of Columbia are especially known for generosity. The cost of workers' compensation has become a deterrent to new business in Minnesota, says Brian Fahey, director of research of the Minnesota Association of Commerce and Industry. More than half the bus drivers in Washington, D.C., managed to sustain an injury in 1980, judging by the successful claims filed. But the District of Columbia city council recently signaled that it recognizes workers' compensation has been abused. The council enacted a new law that tightens the basis for claims and cuts the maximum weekly payment from a handsome $496 to $396—the average working wage in the capital.

The facts about job safety can be as confusing as they are controversial. Last year

continued

"Going across the creek" became a Du Pont euphemism for being blown to bits.

the Council on Economic Priorities, a liberal think tank supported by foundation grants, turned the generally accepted facts upside down by saying Du Pont had the "worst record" among eight major chemical companies.

The council based its findings not on accident rates, which aren't usually available on a company-by-company basis, but on complaints and citations by OSHA, which are. Since until recently even anonymous letters could trigger OSHA inspections, the council picked a shaky basis for its findings. The Department of Labor found the study lacked "the minimal requirements of objective analysis" and misused raw data. Du Pont points out that while the council reported the company had the greatest number of "willful" (most serious) violations, the study failed to say that OSHA backed down on the citations when challenged.

Mr. Magoo in the foundry

Industry portrays the OSHA inspector as a bumbling figure, like Mr. Magoo in the old film cartoons, who might walk blindly through a hellhole of a foundry finding nothing wrong and then cite an otherwise irreproachable office next door because one of its filing cabinets was not bolted to the floor. If you are expecting a visit from the OSHA inspector, don't leave out that antique brass fire extinguisher you plan to turn into a table lamp or you'll be cited for having an inoperable extinguisher. That's what happened to a small Texas company.

Companies that have their own sophisticated safety programs regard OSHA as irrelevant. Says Ned K. Walters, Du Pont's director of safety, "We told our people to obey OSHA regulations but don't let that interfere with our safety program." B. Craig Farmer, a safety expert at the Travelers Insurance Co., observes that OSHA concentrates on checking for unsafe conditions, but most accidents are caused by unsafe acts. OSHA has little to say about the causes of the mundane accidents that Farmer says make up 70% or more of injuries: slips and falls, improper lifting, careless driving. Hotel maids strain their backs by reaching across a bed to make it instead of walking to and fro. Even serious accidents can have trivial causes. A steelworker disdains safety lines when venturing out on a beam 40 stories up, or a painter steps back to admire his work, forgetting he's on a scaffold.

Under earlier Administrations, OSHA sometimes seemed to think that its duty was to convict industry rather than encourage safety. But Thorne Auchter, President Reagan's OSHA director, speaks of being a "cooperative regulator" who will work to help industry improve its safety record by stressing human factors, such as training. Instead of casting a wide net and spending a lot of time visiting plants at which they found no violations, OSHA inspectors are now focusing on industries and companies with poor records. Almost half of OSHA's inspection force will concentrate on the accident-prone construction industry, which is where Auchter came from.

While businessmen are, of course, delighted with the turn in OSHA's policy, labor isn't. "Relations between labor and OSHA are at their lowest possible ebb," says George Taylor, the AFL-CIO director of occupational safety and health, who has just had a nasty exchange of letters with Auchter. Taylor charged Auchter with creating a "blackout" of safety data and invoked the Freedom of Information Act. Auchter replied he was tired of trying to satisfy Taylor's "seemingly endless requests for data," which Taylor seemed "unable to competently analyze." In the exchange of letters Auchter said Taylor didn't realize the days were gone when OSHA confronted industry in a spirit of "vicious adversity."

What it takes to stop the little accidents—as well as the big ones—is unremitting, almost infuriating fussiness about safety from the head of a company all the way down. Clay Smith, business manager of Du Pont's applied technology division, which provides safety and health consulting services to other companies, says that clients who establish serious safety programs average a cut in accidents of 38% the first year.

Du Pont's fussiness goes back to the 19th century, when its principal product was gunpowder and two du Ponts were killed by explosions. In the early days the company's mills blew up so regularly that they were built with three sturdy stone walls and one flimsy wooden wall, facing Brandywine Creek. When the inevitable explosion came, the wooden wall would blow out. The rest of the mill would remain standing and could be economically restored to service. "Going across the creek" became a company euphemism for being blown to bits.

Advancement through safety

Pierre Samuel du Pont, founder of the American branch of the family, set an example of top management involvement in safety in 1817 by leaping from his sickbed at the age of 77 to help put out a fire in a powder mill. Today, at the regular Friday meetings of Du Pont's top management in Wilmington, safety is always the first item on the agenda. The pattern holds throughout the company—safety comes first. Everyone understands that "a job will not be done unless it can be done safely," says James Kearns, a general manager of the textile fibers department. Supervisors and managers realize that without a good safety record, they just won't get promoted.

Du Pont's safety efforts reap enormous savings. In U.S. plants in 1980 the company had 129 accidents that caused workers to lose time from the job—an annual rate of .12 accident per 100 workers, or one-twenty-third the National Safety Council's average rate for all manufacturers. Had Du Pont's record been average, the company would have spent more than $26 million on additional compensation and other costs, using the Safety Council's estimate of $9,400 for the average cost of a disabling accident. That's 3.6% of Du Pont's profits. To make up the difference, in view of the company's 5.5% net return on sales, Du Pont would have had to increase sales by nearly $500 million. That seems reason enough to be fussy about safety. F

RETAILING

The Man Who Makes Millions on Mistakes

One of the fastest-growing off-price merchants, Sy Syms converts excess inventories of brand-name apparel into bargains for the consumer.

by WALTER McQUADE

Packed with merchandise, the enormous new distribution center for the Syms chain of clothing stores stands in the middle of the New Jersey Meadowlands. A visitor there a few weeks ago departed from the second-story office of master apparel merchant Sy Syms only to realize on reaching ground level that he had left behind his own decidedly battered old raincoat. He climbed the stairs once more and opened the hall closet: no coat. Syms and an assistant came out to help search, but at first they too were unsuccessful.

"Sy," the assistant suggested jovially, "maybe we *sold* it already!"

The coat finally turned up in another closet, but the quip hit close to the spirit of storekeepers like Syms, who are known as off-pricers. They differ from ordinary discounters who buy at regular wholesale prices and simply accept a lower than usual markup. The off-pricers keep their selling expenses down to the discounters' level, but they also pick their way through the apparel industry maze to buy brand-name and designer-label merchandise at lower than normal wholesale. Some manufacturers call off-pricers undertakers. Whatever you call them, these pipe-rack boys in drab, windowless stores offer the same goods for roughly half the price at which they are sold by hushed specialty shops.

This is a nervous time for most of the clothing business, but unlike their more conventional competitors, the off-pricers have been selling just about everything they can lay their hands on—and making excellent money at it. Off-pricers are proliferating; they moved an estimated 6% of the $85 billion of clothing sold to Americans last year.

Research associate: Katharena Leanne Zanders

Syms, one of the fastest growing in the business, has ten large stores in eastern cities from Boston and Buffalo in the North to Fort Lauderdale in the South. (For the other leading off-price chains, see page 110.) FORTUNE estimates that Syms stores last year sold $115 million in merchandise (not counting sales taxes) for an after tax profit of about $10 million. Perhaps more remarkable, in a business that is usually in hock to the hilt, Sy Syms, the proprietor, asserts that he borrowed not one cent to acquire his inventory; purchases were all paid for, and promptly, out of cash flow, without even short-term loans.

At 56, Syms is an ebullient man of medium height who talks like the radio announcer he once was, but with a residual Brooklyn accent. He has off-price selling in his blood. His father, the late Morris Merns, was for years Cluett Peabody's independent distributor of discontinued styles of the old, stiff Arrow collars. (Syms's bright daughter Marcy, the oldest of his six children and today a key business assistant, was named after the Arrow Marcy collar worn by Herbert Hoover.) Syms's older brother, George Merns, is in the more conventional discount clothing business in Manhattan, where he owns two Merns Mart stores, operated by his son. Following seven years in broadcasting, Sy worked with his brother in retailing during the 1950s; in 1960 he broke away to try a few ideas of his own, and changed his business name to Syms by combining Sy with the first and last letters of Merns.

Scissoring the labels

Off-price retailing got its start in the U.S. in 1920, when Loehmann's set up a cut-rate back-door outlet in Brooklyn for "better" women's wear that had been stitched in the Manhattan garment district and hitherto sold only through dignified department stores like Saks Fifth Avenue, Best's, and Lord & Taylor. Disturbed at being undersold, these stores put pressure on the manufacturers, who in turn persuaded Loehmann's to scissor all manufacturers' labels from their merchandise so customers could not be sure what they were getting. This practice persists today in the 56 Loehmann's branches scattered across the country, although astute shoppers have long since broken the price-tag code identifying the manufacturers.

Two essentials distinguish the way Sy Syms runs his off-price enterprise. The first is bargain prices; the second is selling brand-name merchandise recognizable to the buying public. The first Syms stores went into business on Manhattan's Lower West Side in 1960 and then, as now, were oriented mainly toward men's wear. A shopper at Syms who likes the cut of a certain suit will note from the label on the sleeve and the initialed lining that it is, say, a Pierre Cardin. The price tag will

tell him something like, "Nationally advertised at $240, Syms price $158." If he has any doubt that this is true, he can check out the price of a Cardin at Bloomingdale's in Manhattan or the Wallachs branch in his suburban shopping center, then hasten back to Syms and make his purchase, confident that he is getting a bargain. Some days a sign on the Syms wall will knock another $20 or more off the Cardin price.

Some brands of men's suits never go off price, including the $550 Hickey-Freeman, the Southwick, and Oxxford. But Hart Schaffner & Marx, which owns Hickey, often provides Syms with top-grade merchandise under other brand names, and Grieco Bros., maker of Southwick, sells Southwick-type suits at Syms under the Grieco label. There is probably no better ready-made men's suit in the world today than a Brioni from Italy, and Syms stocks them regularly in small quantities. They are not identical with the Brionis sold for $1,095 to $1,150 uptown on East 55th Street between Fifth Avenue and Madison, differing in a few details imperceptible to the unprofessional eye. They have the same Roman cut and are put together by the same scrupulous hand tailors, out of the same beautiful Italian wools. Currently Brioni price tags at Syms read "Nationally advertised at $650, Syms price $298."

This labeling is part of Sy Syms's campaign to produce what he calls "the educated consumer"; to the same end he has also gone back to the airwaves, each year spending 1½% of his previous year's gross

Identical Adolfo tuxedos were recently selling at elegant Saks and inelegant Syms for poles-apart prices.

Photograph by Kim Steele

What Sy Syms is telling the public in this TV spot is that there is never a sale at Syms. His prices are low all the time.

on strategic TV and radio spots. Facing the TV camera, he intones messages such as, "At Syms an educated consumer is our best customer. I'm Sy Syms, and if a garment doesn't have a recognizable name on it, it's not advisable to buy it." Marcy Syms recites the women's ads, and one of the three sons in the business also appears. Syms writes the copy, which is simple and plainspoken (he says he doesn't want "any cutesy kickers") and 100% institutional rather than item oriented. Syms has promised his suppliers he will never use their brand names or quote specific prices outside his stores. Were he to do so, the suppliers' other customers—department stores and other straight-price outlets—would howl.

Shooting dice twice a year

In the off-price business, getting merchandise is as important as selling it, so Syms is good to his suppliers. He is constantly on the phone to them in his New Jersey office. Marcy says, "I tell Sy, 'Why don't you have someone else answer the phone?' He says, 'Naw, naw, it's all right.' He answers every call; it's wonderful—and he demands that every one of his ten buyers do too. He says, 'I don't care if that guy's been bothering you and you never made a deal with him. Every time he calls, you should answer his call because you never know when it's just the thing we want, we need, at the right price.' "

Syms has been courting manufacturers for more than 20 years, but the affair has become mutual; they recognize he is important to them because the clothing business can be very risky, especially since it congenitally overproduces. A suitmaker, for example, must decide which piece goods (fabrics) to order from the mills and in what quantity 18 months before the final product is to appear in stores. In the words of one manufacturer, "We're shooting dice twice a year."

If the market sours, the manufacturer may not book enough orders from his regular outlets to use more than half the fabric; he is then faced with unloading the remainder of the piece goods. He can sell them to a jobber for about 20% of what he paid for them, or he can call an off-pricer. The off-pricer will often pay full price for the piece goods on the condition that the manufacturer agree to "chop up" the goods—in trade jargon, cut to pattern—and make them into garments at cost. Besides letting the manufacturer off the hook of insolvency, this kind of deal permits him to keep his plant operating and retain his labor force.

As for the off-pricer, he gets his merchandise for less than what the usual retailers pay and can mark it up less because of low overhead. Most retailers have to mark a $75 garment up to $150. The off-pricer may pay only $50 for the same garment and mark it up to only $75.

Today much of the clothing sold in the U.S., particularly what the trade calls furnishings or haberdashery, is manufactured in the Far East under circumstances that provide still further opportunities for the astute off-pricer. First the importer—usually an American manufacturer—must place mass orders, say for 10,000 dozen shirts or blouses, thinking he has them presold to retailers. But maybe the shipment comes in a little late and the stores refuse to take all the shirts or, if business has been sluggish, any of them. The sparring between suppliers and stores is rough in a tough economy. "They're cruel out there," says one maker of trousers.

So the importer is stuck with the goods. One shirt manufacturer, who declines to be identified in print, recalls that some 16 years ago Syms had been soliciting his company for overruns. "I fended him off," says the manufacturer. "You couldn't help liking the guy, but you can't get to seeming promiscuous in where you put your product. Then I suddenly had 5,000 dozen shirts on my hands, and no orders. So now I'm hurting."

He goes on: "You have to bite the bullet and get rid of mistakes. I called Sy and dickered." He has been selling Syms many of his miscalculations ever since. This manufacturer says Syms is the best off-price company to do business with. "A soft touch he's not," he says, "but he doesn't gouge. He keeps his commitments."

Perhaps best of all, Syms is swiftly available and will move fast, paying within ten days when one of his old manufacturing friends is in a bind. "If I closed my doors," says Syms, "the customers would find somewhere else to shop, but many of my dear suppliers would be hard pressed to replace my company."

The long professional bonds have become personal. Syms plays tennis five or six mornings a week with a group of executives who sit in 1290 Avenue of the Americas, headquarters for most of the men's-wear manufacturers in the country. He shares their fetes as well as their failures, and their charities, which is important. The men's-wear manufacturing industry is largely Jewish and is proud of its charities, which range from helping educate underprivileged children in Catholic schools to supporting Boys Town of Jerusalem. At a luncheon in New York in June honoring Prime Minister Menachem Be-

continued

The Big Six Off-Price Chains

Not only are agile small companies doing well in the off-price apparel business, so are adroit large corporations. The giant in the field is Mervyn's, a division of Dayton Hudson, whose 83 off-price stores racked up $1.1 billion in sales last year. Next largest is Marshalls, owned by Melville Corp., and then comes Zayre Corp.'s two off-price chains, T.J. Maxx and Hit or Miss, whose 339 stores combined to gross $365 million. The small U.S. maps indicate the geographic concentration of each chain.

Beyond the leaders is a constellation of off-pricers, both individual stores and multiples. F.W. Woolworth has an entry in the off-price stakes: J. Brannam stores. In the past two years 36 Brannams have opened, and although they have not yet broken the $100-million sales mark, they are successful enough that Woolworth has decided to open 90 to 100 more in the next four years.

Some big discount chains—K mart, Caldor—have apparel departments in their stores, but these seldom qualify as true off-pricers. Most of their apparel is not famous brands and is bought at regular wholesale prices and simply sold at low markup. In addition, many manufacturers own outlet stores that offer only their own products, ranging from Cole-Haan shoes to the Izod alligator shirt.

As the off-price business grows, competition is rising among stores seeking to supply themselves with manufacturers' overproduction and returns. Because the clothing business has been hit hard by recession, a lot of overproduction is available. But when the regular retail outlets begin to spin happily again, some off-pricers without strong established ties to manufacturers may find their pipe racks bare.

gin of Israel, the State of Israel Bond Organization asked the audience for pledges to purchase Israeli bonds. The Bronfman distilling family led the response by pledging $250,000. It gave Sy Syms a lot of pleasure to be able to throw in $100,000. That secretive shirt manufacturer sums up his feelings about his customer: "He's an honorable, decent person, a responsible member of the community."

Syms himself, despite worldly success, is just a little restive with his role. He chafes at sitting behind his desk in New Jersey dealing with lawyers and real estate people, plotting the company's further expansion. He is happiest when he gets out into the aisles of his stores, merchandising. Almost as a hobby, he bought A. Sulka & Co., one of the poshest retailers in the country, and he drops in on one of the Manhattan stores almost daily (see page 116). At least once a week a limousine—with a telephone to keep him accessible—carries him on inspection tours of Syms.

The Syms stores resemble the usual roadside discount house in several ways. They are anything but luxurious, with dimly lit communal dressing rooms (no separate stalls), long lines at checkout counters, and few amenities of any kind. The sparse help is paid straight salary, no commissions. There is no investment in mannequins to show off the merchandise, nor are there free alterations, gift wrapping, or deliveries. Customers are as often as not handed their purchases in paper bags. Only one credit card is accepted: Syms's own. Syms economizes still further by situating stores in out-of-the-way places, trying to stay away from shopping centers, which generally demand a percentage of the tenant's gross in addition to rent. Yet the Syms parking lots have more than their share of Mercedeses and Cadillacs. Affluent people like bargains too, especially stylish bargains.

When his driver deposits Sy at a Syms, the owner takes to the floor of the store with obvious pleasure, rearranging the garments on their racks, sometimes instinctively changing prices, pleading with managers to have the corners swept. Syms finds his greatest pleasure is much more in the process than the bottom-line results, as long as those are in the black. Says one of his divisional managers, "Financially, we fly by the seat of our pants."

The off-pricers are having a strong impact on the brand-name clothing market. A generation ago the names of renowned

continued

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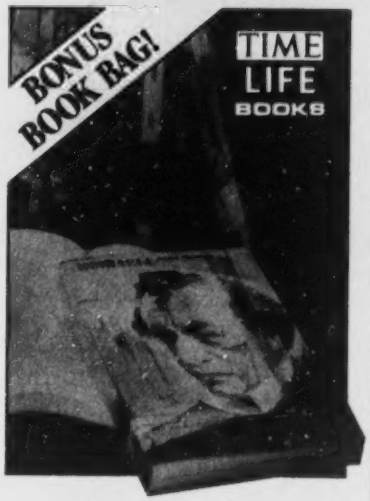

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The designers are wagging the industry.

department stores—Lord & Taylor, Marshall Field, Neiman-Marcus—were what gave clothes cachet. But today the designers are wagging this dogged old industry. The change began in the male clothing business when women's-wear designers such as Pierre Cardin, Yves Saint Laurent, Bill Blass, and John Weitz moved in.

Perhaps the most potent of all has been Ralph Lauren, born Ralph Lifshitz. Less than 20 years ago he left a job selling haberdashery at New York City's Brooks Brothers to become an on-the-road salesman for a necktie maker. Before long he was selling his own brand, manufactured on contract by his former employers, and soon added a line of expensive men's sportswear. A genius at styling, stubborn at maintaining quality, he then plunged into designing women's clothes. In due course came Lauren perfumes for both women and men, Lauren cosmetics, Lauren suitcases and shoes; he is currently moving into housewares. Using newspaper and magazine advertising, he has made the Lauren name, and his flamboyant visage, familiar throughout the republic. Lauren's success has been emulated by other designers: Adolfo, Oscar de la Renta, Halston, Geoffrey Beene, and particularly Calvin Klein. Klein is reported to be drawing, personally, $15 million this year; Lauren, $12 million.

Good goods, but late

Except for Lauren, who makes his top tailored clothing line, Polo, in his own factory, these designers do not turn out their own merchandise. They license their names and designs to manufacturers. Yet so powerful have the designers become with the public that they can and do deny exclusivity to any single store. One can buy a Calvin Klein at Bloomingdale's, at Saks Fifth Avenue, at Macy's—and at Syms too, only for a lot less money. The prestige of the designer lends credibility to the off-pricer: customers know they're getting good goods for less.

Off-price merchandise does tend to reach the store somewhat out of season. For example, Bloomingdale's will put Ralph Lauren's Polo suits for spring and summer on the floor in November of the previous year and have through mid-June to sell them, at $400 to $620 each. Sy Syms probably doesn't even get the Polo line until June 1. Moreover, if the manufacturer offers him 2,000 suits, they may not come in all sizes, and he cannot choose exact fabrics. Nevertheless, he can sell a Polo suit for half the Bloomingdale's price and still make a profit. Last year all the Syms stores together sold more than 150,000 men's suits bearing more than 200 well-known brand names.

The fastest turnover at Syms, however, is in a rather different item. Syms recently chortled at a question: "Quantities? Baby, you want to know quantities? Panty hose!—it's mind-boggling, unbelievable!" Last year he sold 1.4 million brand-name pairs: wholesale price, $1; Syms's price, $1.25.

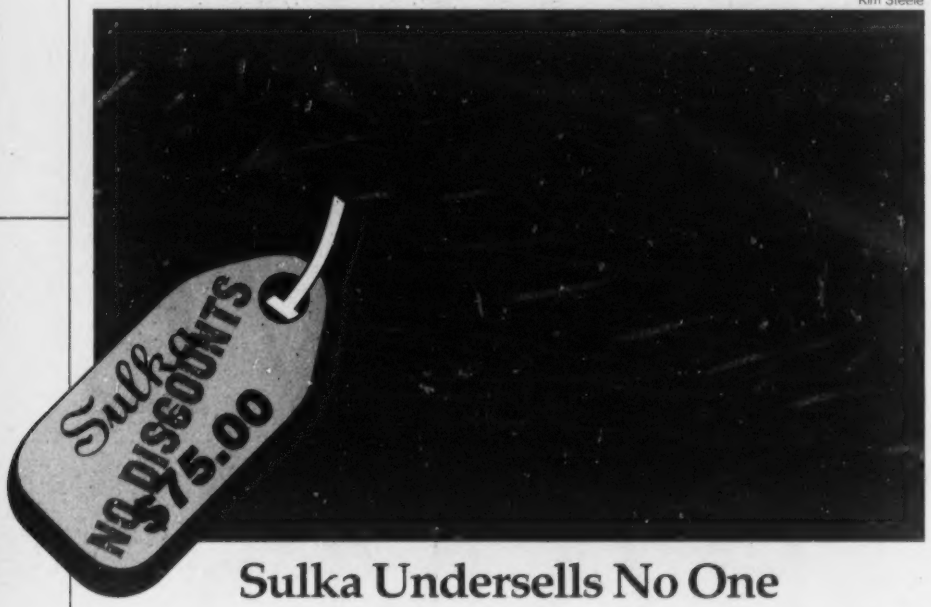
He missed the pipe racks

Some eight years ago Syms hired Ira Weiser, long famous inside the men's-wear business and a 30-year employee of the Manhattan emporium Barney's, which started as a concrete-floor, pipe-rack, off-price operation, but later, to Weiser's vague unease, became one of the city's more stylish and expensive specialty shops. Since coming to Syms, Weiser has worked out new, more sophisticated arrangements with suppliers to ensure that the voracious appetite of the Syms stores will be fed regular meals of prime merchandise. Weiser, whose title is divisional merchandise manager, will, for example, commission a manufacturer during an off-season lull to turn out 5,000 sports coats, a deal considerably sweetened for the manufacturer by Weiser's willingness to pay for them up front. Syms, with its enormous new warehouse, can also store clothing until the right season.

The whole clothing business is in much more than its usual turmoil this year. Small men's-wear shops are suffering particularly. A survey by the *Daily News Record*, Fairchild Publication's male twin to *Women's Wear Daily*, revealed last month

continued

Kim Steele



Sulka Undersells No One

Sy Syms has startled his colleagues in the off-price apparel trade by purchasing one of the world's most vaunted purveyors of exquisite men's furnishings. He bought the U.S. and London branches of A. Sulka & Co. in 1980; this month he agreed to add Sulka's remaining unit, in Paris. Sulka products have been famous in small circles since 1895, when a tailor named Amos Sulka founded the company in London. New York has two branches, San Francisco one. Perhaps the only embarrassment Sulka has suffered was the penchant big-time racketeers showed for Sulka silk shirts in the Gatsby 1920s.

Today Sulka's shop on Manhattan's East 55th Street is Sy Syms's own little store, the one he can oversee daily on the way from his Sutton Place apartment to the warehouse in New Jersey. The silver limousine waits across the street under the St. Regis Hotel canopy with the other big cars while Sy hones his merchandising skills by rearranging the window displays and seeing to other details. Sulka stocks such items as a $2,500 dressing gown of English cashmere lined with the purest silk. A smoking jacket of Italian silk brocade goes for $1,500. When Syms bought it, the store had run down just a little and the whole chain was unprofitable. Syms is determined to renew the image, lifting quality higher than ever and perhaps even pulling Sulka into the black. "You can be sure he'll do it," says Ira Weiser, one of Syms's important aides. "But there'll never be anything from Sulka in Syms but Sy's own necktie."

that more manufacturers and retailers are hovering on the bankruptcy brink than ever before in memory, including the clothing business's terrible mid-1970s and the even worse 1930s. The retailing score is being kept not just by seasons, but by months. "March and April were flat," says one men's wear maker, "May was great; I thought business had turned around. But June was a disaster."

How much this can be attributed to the rise of off-pricers is debated in the trade. "It's a whole new ball game in men's wear: top level, no middle, then Syms," says one prominent importer. "The little specialty shop is being ground between the big powerful department store chains on the top and the off-price stores underneath. The middle-range standard markup is disappearing."

Another testimonial to off-pricing's success is that almost all stores are getting to be a little more like the off-price ones. Buying agents have formed networks of isolated clothing stores around the country and stalk off-price merchandise in wholesale markets for these scattered clients. Department stores daily advertise a smashing surf of special sales. Some are fakes. Manufacturers complain that women's merchandise managers, even in prestigious stores, too often will buy a dress for $50 wholesale, mark it up to $195, then ballyhoo a big sale by marking it down to $100, the price at which it should have been offered the first time around. These cynical tactics drive away trade, the manufacturers complain. Says one, "You can fool shoppers individually but never collectively. They're going to get you every time. You can bullshit them to death, one by one, but collectively they know."

Syms stores maintain they have no sales, but "dividends" are announced frequently over the stores' public address systems, especially on rainy and snowy days. "We think we owe the customers a little favor for coming out in bad weather," says Syms. "Maybe they'll all be at home wondering what to do and someone will say, 'Hey, it's raining. Let's go over to Syms and see what the dividend is.' "

A distasteful prospect

Syms is still expanding. In September another big store will be opened in Maryland, and some people in the clothing industry expect the chain to spread into the Southwest before long. Whether Sy will be able to continue financing his own momentum is a question. He has had numerous offers from larger companies to sell out but is reluctant. It is a family business first, and Sy knows a buyer would insist that he go on running Syms, and he doesn't relish the prospect of doing it under higher authority. "If I was working for a conglomerate," he says, "would they let me buy panty hose for a buck and sell them for a buck and a quarter? Never."

He could conceivably raise capital for expansion by going public. There is lively interest in the off-price business in the financial markets. Last October the brokerage house of Smith Barney Harris Upham & Co. held a conference on off-price in New York. One conferee, C. William Ress, a prominent consultant on marketing for manufacturers and retailers, predicted that before long off-pricers would be selling 25% to 30% of all name-brand soft goods in the U.S. "They operate under the umbrella of credibility offered by the department stores," Ress said. "How do they do it? Buy low, sell fair." Not, as he added, bad advice for anyone.